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SUBJECT: ECONOMIC MINISTERS PUSH INVESTMENT, MEGAPROJECTS TO DRIVE
ECONOMY

REF: BANGKOK 657

¶1. Summary: Thailand's new economic ministers laid out their priorities for economic growth at a recent forum, presenting their plans to boost investment, consumption and exports. The Ministers were attuned to foreign interests and alleviated concerns over capital controls and investment restrictions that had unnerved the business community during the previous government. The Finance and Transport Ministers outlined a broad strategy of investment in public infrastructure in transportation and logistics that could total as much as 1.5 trillion baht (USD 47 billion). Confidence in the abilities of the new economic team is still low, but Finance Minister Surapong impressed as a quick study. End Summary.

¶2. On February 25, Prime Minister Samak opened a half-day forum hosted by the Bangkok Post newspaper featuring speeches from Samak's top economic ministers, including Minister of Commerce Mingkwan Sangsuwan, Minister of Finance Surapong Suebwonglee, Minister of Industry Suwit Khunkitti, and Minister of Transport Santi Prompat. PM Samak described his cabinet as the "ugly duckling" cabinet (referring more to their qualifications than looks), but said that they would transform into beautiful swans. "My cabinet is not good looking, but our policies are not bad looking," he insisted. Samak made a number of references to the determination of his cabinet's members from disparate parties to work together, a pointed reference to the previous government's inability to coordinate among Ministries.

Investment, megaprojects to lead economic growth

¶3. Finance Minister Dr. Surapong Suebwonglee gave the keynote speech over a gala dinner attended by the business and diplomatic community. Although he provided no new major policy pronouncements, he pressed his theme of improving investor confidence and keeping up with regional competitors. Surapong explained that of the four principal drivers of Thailand's economic growth, exports, public investment, private investment and consumption, only exports had performed well in recent years. He emphasized the need for expanded public investment, insisting that the government could afford to raise its debt level to boost spending. Surapong said that public debt-to-GDP ratio is at a reasonably health 38 percent (compared to over 80 percent ten years ago). He suggested that the RTG could lift its debt/GDP ratio up to 50 percent, implying an additional 1.5 trillion baht (USD 47 billion) would be available for infrastructure investment and other programs. The RTG would focus its spending on reviving the Thaksin-era "megaprojects", large public infrastructure projects in transportation and logistics.

¶4. Surapong stressed the need to reenergize private investment by attending to foreign investment concerns. He promised a quick and definitive decision on the 30 percent reserve requirement on capital

instituted in late 2006 (and since lifted on March 3, see reftel). He also promised to keep foreign investment interests paramount relative to the Foreign Business Act. The previous government had proposed amendments to the Act that would have further restricted foreign investment; Surapong said any future changes would focus on providing additional clarity to the rules rather than applying new restrictions retroactively. Surapong noted that while the threat of recession was not on the horizon, Thai industries were operating at near full capacity and more investment was crucial to continue growth.

15. Minister of Industry Suwit Khunkitti promoted stronger private investment as well, but noted that Thailand had not lived up to its potential as a production hub. Thailand was surrounded by important markets in ASEAN, India and China, he said, but had underutilized its position and needed better transportation routes to regional capitals to move its products. Suwit promised to promote more investment in the heavily industrialized Eastern Seaboard, and discussed development of a future Southern Seaboard that could focus on petrochemical and chemical industries.

16. To boost consumption Surapong announced that he would present a new economic stimulus package to the Cabinet for approval on March 14. The package would focus on stimulating consumption at the grassroots level. Surapong denied the stimulus would be a populist measure aimed at gaining more support for the current government, but rather explained that getting money into the hands of the poor was the most efficient means to quickly boost consumption.

17. Although exports have been the key driver of Thailand's economy for the last couple years, Surapong downplayed its importance, telling the mostly business crowd that the domestic market should be their most important. He said that he was not overly concerned about the strength of the baht (which has appreciated in value by 20 percent in the last two years). Surapong said he preferred that the

baht not skyrocket in value, but would not be alarmed if the currency rose in line with other currencies in the region.

18. Surapong admitted that Thailand's challenge was great, possessing neither the lowest labor costs in the region, nor the most advanced science and technology base to spur economic growth. He said Thailand had little room for more political instability, government inaction, or ill-advised legislation that would negatively affect investment. Surapong, Suwit, and Commerce Minister Mingkwan all pointed out the economic rise of Vietnam and the competition for export markets that it posed.

Megaprojects to drive public investment

19. Minister of Transport Santi Prompat expounded on the proposed megaprojects -- investments in water, logistics and transportation infrastructure that the RTG would use to not only boost growth but also invest in the country's economic future. Santi focused primarily on logistics, promising to decrease logistics costs and increase transport capacity while reducing pollution. Santi lamented Thailand's over reliance on road transport, raising costs in a time of spiraling oil prices. Santi compared Thailand's high logistics costs of 16 percent of GDP to Japan's at half the cost, and promised to reduce costs to 13 percent by building capacity in maritime, rail and air transport. Santi's plans for rail include 800 more kilometers in double track rail and new high-speed passenger rail links that would cut transport time to Chiang Mai in half.

110. Santi also laid out plans for nine more subway and SkyTrain routes within Bangkok, plus a new link to Suvarnabhumi airport. The new lines would include 300 kilometers of line to connect Bangkok with the surrounding provinces. Santi emphasized the need to develop transportation into the suburbs to allow greater migration of people into outlying areas of Bangkok where land prices were lower. Santi also linked Bangkok's notoriously abysmal traffic to the city's pollution problems and proposed converting Bangkok's buses to cheaper and cleaner natural gas.

111. Comment: PM Samak's "ugly duckling" Cabinet has been widely derided as a group of political hacks (or nominees for other pols),

but his economic ministers did a reasonable job of laying out their priorities for growth. Finance Minister Surapong, a doctor by training, managed to impress most of all. Despite his almost complete lack of financial experience, Surapong gave a strong presentation without notes and showed he had a clear idea of where he wanted the economy to go. An economist with Siam Commercial Bank told econoff, "Who cares if he's a medical doctor? We've had plenty of economic PhDs and got nowhere. People want someone who can get things done, and this guy is in that mold."

JOHN